CONNECTICUT HEALTH INSURANCE EXCHANGE
(DBA ACCESS HEALTH CT)

Financial Statements

June 30, 2014

CONNECTICUT HEALTH INSURANCE EXCHANGE
(DBA ACCESS HEALTH CT)

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access health CT

Connecticut's Health Insurance Marketplace

Management's Discussion and Analysis
(unaudited)

1.0 Introduction

Tracking and profiling the financial activity of the state based insurance marketplace is an essential task to ensure efficient operations and optimal allocation of resources as Connecticut transitions from design, development and implementation (DDI) to operations. The following document contains a discussion and analysis of the Connecticut Health Insurance Exchange (hereafter referred to as Access Health CT (AHCT))'s financial performance for the 2014 Fiscal Year ended June 30, 2014. The management of AHCT has prepared this document to provide an overview and analysis of the basic financial statements of AHCT, and it should be read in conjunction with the statements, tables, exhibits and notes that follow this section.

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3.0 Background of Access Health CT:

AHCT (which is the brand name under which the Connecticut Health Insurance Exchange does business) was created under Connecticut enabling legislation –PA 11-53, effective July 1, 2011 "as a body politic and corporate, constituting a public instrumentality and political subdivision of the state" ... that "shall not be construed to be a department, institution or agency of the state." PA 11-53 is codified at CGS 38 a – 1080 through 1090.

The goals of AHCT as outlined in CGS 38a – 108 3(b) are "to reduce the number of individuals without health insurance in this state and assist individuals and small employers in the procurement of health insurance by, among other services, offering easily comparable and understandable information about health insurance options." AHCT was established as a Quasi-Public Agency. PA 11-53 (Section 16, 17 and 18) specifically amended the Quasi-Public Agency Act, CGS 120 et seq. to add AHCT as an agency subject to its requirements.

AHCT is governed by a 14 member Board of Directors. Members include ex officio state government officials and private sector members appointed by both the legislative and executive branches of state government. The mission of AHCT, and by extension the mission of the Board, is to increase the number of insured residents, improve health care quality, lower costs and reduce health disparities through an innovative, competitive marketplace that empowers consumers to choose the health plan and health care providers that best meet their needs.

Prior to the establishment of AHCT, much of the planning for AHCT was funded by a Federal establishment planning grant that was awarded to Connecticut by the Federal Department of Health and Human Services (HHS) on September 29, 2010. Based on its progress in its State Based Marketplace planning efforts, HHS awarded a $6.7M Establishment Grant to AHCT in August of 2011 to build on the work conducted under the initial planning grant.

On August 2, and August 23, 2012, AHCT, through the State of Connecticut Office of Policy and Management, was awarded a $1,521,500 amendment to the existing Establishment Grant as well as a second Establishment Grant award of $107,358,676, respectively, from HHS to further the development of and to stabilize the operations of AHCT during its first year of operations. These funds allowed AHCT to shape its strategy successfully and meet all necessary development milestones and benchmarks during fiscal year 2013. On December 21, 2012, the grantee of these awards was changed to AHCT from the State of Connecticut Office of Policy and Management.

On February 14, 2013, AHCT was awarded an additional Federal Grant in the amount of $2,140,867 for the development and implementation of the In-Person Assister Program. Through a partnership with the State of Connecticut's Office of the Healthcare Advocate, the implementation of this program provided hands-on assistance directly to the uninsured individuals seeking health insurance coverage via AHCT during the initial open enrollment timeframe.

On August 28, and September 12, 2013 AHCT was awarded a $24,960,892 amendment to the existing Establishment Grant, and a $497,741 amendment to the existing In-Person Assister Grant respectively, from the U.S. Department of Health and Human Services pursuant to Section 1311 of the Affordable Care Act to support the on-going establishment of the state operated health insurance exchange marketplace. These funds were awarded as a result of administrative supplement requests submitted by AHCT to support unforeseen development and implementation costs.

On October 23, 2013, AHCT was awarded a new Level I Establishment Grant in the amount of $20,303,020 by the U.S. Department of Health and Human Services pursuant to Section 1311 of the Affordable Care Act. This request was submitted primarily to fund the stabilization of AHCT's first year of operations for adherence to Federal guidance and regulations that were not contemplated at the time of the Establishment Grant funding request.

During its 2014 legislative session, the Connecticut General Assembly passed Public Act 14-217, which included provisions providing additional enforcement authority for the Exchange's assessment. Specifically the Legislature added a new section, CGS 38a-1083(d)(1) that directs the Commissioner of Insurance to "see that all laws respecting the authority of the exchange pursuant to said subdivision (7) are faithfully executed."

In January, 2014 AHCT issued its first Health and Dental Marketplace Assessment to carriers that are capable of offering a qualified health plan through the exchange beginning to transition from grant funds as sole source funding.

4.0 Access Health CT Business Model:

During fiscal year ended June 30, 2014, grant funds and health and dental marketplace assessments were the two revenue sources for AHCT. The investment for the development of the State Exchange is entirely funded from Federal grant dollars awarded. This Federal investment is expected to cover all development, start-up, and operating expenses during the first year of operations. Thereafter, ongoing operations will be funded with health and dental marketplace assessments and cost reimbursements from the Department of Social Services related to maintaining and operating the Integrated Eligibility System for both Qualified Health Plans (QHPs), Medicaid and Children's Health Insurance Plan (CHIP).

During the summer of 2013, AHCT worked with carriers, such as Healthy CT, Connecticare and Anthem, to publish QHP plan design options and components of the QHP application for the AHCT web portal's October 1st Open Enrollment release. AHCT launched an integrated marketing strategy that combined media, outreach and engagement. In addition to TV, radio, newspaper, billboards, and online advertising, AHCT also implemented assistance channels such as storefronts, branded as AHCT enrollment centers, Healthy Chats and In-Person Assister (IPA) and Navigator programs.

In preparation for open enrollment, AHCT focused on the implementation and successful launch of its multi-channel "no wrong door" approach, which included the web portal (including the SHOP platform), paper applications and call center on October 1st, 2013.

AHCT successfully launched its State-based Integrated Eligibility System and Health Insurance Marketplace on October 1, 2013. Throughout the remainder of fiscal year 2014, AHCT continued to make system enhancements related to non-critical deferred functionality and regulatory requirements.

As AHCT transitioned to open enrollment, there was a shift in focus to customer service in order to meet the demands of State of Connecticut residents including the 856,836 unique website visitors, 420,694 calls and conversations with the call center, 5,225 storefront customers and 605,493 (self-reported by IPAs) unduplicated individuals supported by IPAs.

At the end of the first open enrollment period, AHCT enrolled 208,301 individuals including 129,588 Medicaid enrollees and 78,713 customers in QHPs, as compared to estimates by the Congressional Budget Office, AHCT exceeded those estimates by the highest percentage in the country. AHCT also exceeded its own enrollment goal of 100,000 individuals during this first open enrollment period, making it one the most successful marketplaces in the country.

AHCT's commitment to transitioning to a "going concern" entity has focused on building a sustainable operating model. During Fiscal Year 2014, AHCT continued to work diligently to ensure the necessary financial processes and procedures were developed and implemented.

AHCT has partnered with several strategic vendors to address key requirements during continued Marketplace development:

- AHCT's call center vendor, Maximus went live on September 1, 2013, with the goal of taking educational calls beginning on September 18, 2013, and transitioned to customer support at the beginning of open enrollment

- The marketing and communications firm, Pappas MacDonnell (Pappas) developed and implemented a comprehensive consumer outreach and engagement plan to successfully reach and engage Connecticut consumers. Specifically, Pappas has supported the development and implementation of AHCT's marketing plan, including the majority of consumer outreach efforts, brand development and launch, advertising purchasing, and the overall execution of AHCT's Go-To-Market Plan.

- AHCT leveraged State of Connecticut Contracts with Sir Speedy which supported operations specific to notice and forms issuance and Scan Optics, which scans paper applications and other documents.

In addition, AHCT has continued its partnerships with multiple state agencies through the execution of Memorandums of Understanding (MOU) and/or Memorandums of Agreement (MOA) in order to leverage state resources and expertise to assist in the support of the successful implementation of the Health Insurance Marketplace:

- AHCT maintained its MOU with the Department of Social Services (DSS) to document the specific roles and responsibilities of each agency during development and implementation of the Health Insurance Marketplace. The allocation of costs for development of the Integrated Eligibility System is shared by DSS and AHCT, with a 28.53% share of design, development, and implementation costs being paid by DSS. Additionally, the allocation of costs for shared operations, with a 56% share of operational costs being paid by DSS.

- AHCT leveraged an existing Department of Social Services (DSS Contract with Xerox) for other operational support services. This arrangement did not require a contract directly with Xerox. AHCT is cost sharing these services with DSS based on volume of use applicable to AHCT. The Memorandum of Agreement (MOA) with DSS states that these costs will be split with DSS covering 56% of costs and AHCT covering the remaining 44%.

- AHCT completed its MOU with the Office of the Healthcare Advocate (OHA) for the management and administrative support of the Navigator and Assister programs with a successful program completion.

AHCT's financial report includes three financial statements:

1. The Statement of Net Position (Balance Sheet)
2. The Statement of Income, Expenses and Changes in Net Position
3. The Statement of Cash Flows

The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board (GASB). Under this method of accounting, an economic resources measurement focus and an accrual basis of accounting is used, similar to private industry. Income is recorded when earned, and expenses are recorded when incurred.

The Statement of Net Position presents information on AHCT assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of AHCT is improving or deteriorating.

The Statement of Income, Expenses and Changes in Net Position reports income and expenses of AHCT for the fiscal year. The difference – increase or decrease in net assets – is presented as the change in net assets for the fiscal year. The cumulative differences from inception forward are presented as the net assets of AHCT, reconciling to total net assets on the Statement of Net Position.

The Statement of Cash Flows present information showing how AHCT cash and cash equivalent positions changed during the fiscal year. The Statement of Cash Flows classifies cash receipts and cash payments as resulting from cash provided by operating activities and cash used for capital assets and related financing activities. The net result of those activities is reconciled to the cash balances reported at the end of the fiscal year. This statement is prepared using the direct method, which allows the reader to easily understand the amount of cash received and how much cash was disbursed.

5.0 Summarized Financial Information:

Summarized financial information as of and for the year ended June 30, 2014 and 2013 is as follows:

6.0 Revenues, Expenses and Changes in Net Position

	2014	2013
Operating Revenues:		
Government grants and contracts	$ 73,303,817	$ 45,463,090
Grants	205,000	-
Marketplace assessment	12,465,573	-
Interest income	17,879	513
Total revenues	85,992,269	45,463,603
Operating Expenses:		
Wages	6,985,039	2,734,791
Fringe benefits	1,546,881	626,199
Consultants	50,438,598	16,838,212
Equipment	1,231,834	217,628
Supplies	38,850	21,882
Travel	202,096	99,891
Administration	1,502,855	249,885
Maintenance	1,270,281	875,491
Depreciation and amortization	9,469,050	1,509,001
Total operating expenses	72,685,484	23,172,980
Change in net position	13,306,785	22,290,623
Net position, beginning of year	23,887,534	1,596,911.00
Net position, end of year	$ 37,194,319	$ 23,887,534

2014 operating revenues were higher than 2013, due to the collection of 2014 health and dental marketplace assessment and increased cash required from grant funding to cover incurred operating and capital expenses as AHCT focused on development and implementation of the Integrated Eligibility System (IES). The $33.6m increase in consultant expenses is related to outsourcing support for developing and marketing AHCT's brand; design, development and implementation (DDI) of the individual and Small Business Health Options (SHOP) marketplaces, as well as operating costs for the Call Center and Xerox. Salaries, benefits and related travel increases are aligned with staffing growth in administration and operations from 43 to 68 plus seasonal staffing required for open enrollment. Equipment expense, which includes hardware and software, increased as a result of purchasing laptops for IPAs necessary for open enrollment support and NetSuite Enterprise Resource Planning application. The administration expense increase is due to mailing services and rent expense associated with the acquisition of storefronts and mailing services. Additionally, the depreciation and amortization increase is related to capitalization of the IES. Total operating expenses were reduced by $16.5M as a result of the cost reimbursement by the Department of Social Services.

7.0 Access Health CT Net Position

	2014	2013
Assets		
Current assets		
Cash and cash equivalents	$ 39,782,505	$ 4,994,339
Accounts receivable	3,325,310	7,342,366
Prepaid expenses	154,822	1,003,958
Total current assets	43,262,637	13,340,663
Noncurrent assets		
Security Deposit	8,653	-
Software development in progress	-	16,869,697
Equipment and software, net	25,177,072	7,017,837
Total noncurrent assets	25,185,725	23,887,534
Total assets	$ 68,448,362	$ 37,228,197
Liabilities and Net Position		
Current liabilities:		
Accounts payable	$ 214,732	$ 112,509
Accrued liabilities	30,303,613	9,773,138
Refundable advances	735,698	30,811
Total current liabilities	31,254,043	9,916,458
Long-term liabilities:		
Accounts payable - long-term	-	3,424,205
Total liabilities	31,254,043	13,340,663
Net Position:		
Invested in capital assets	25,177,072	23,887,534
Net position	12,017,247	-
Total net position	37,194,319	23,887,534
Total liabilities and net position	$ 68,448,362	$ 37,228,197

For 2014, cash and cash equivalents primarily include $22.3M received from the Department of Social Services for reimbursement of development costs incurred by AHCT as well as marketplace assessments received, net of expenditures. Equipment and software includes the net book value of capitalized hardware and software, including capitalization of the Integrated Eligibility System, required for the development of the individual marketplace. Total capital expenses were reduced by $5.8M as a result of cost reimbursement by the Department of Social Services.

Accrued liabilities represent unpaid work and related 20% contractual withholding the system integrator and unreimbursed costs incurred on behalf of the Department of Social Services. The increase in refundable advances is related to the timing of cash utilization from grant draw downs.

8.0 Capital Assets

At the end of 2014, Access Health had $25M invested in capital assets. This amount represents a net increase of about $1.2M or 5% over last year.

Capital Assets at Year-end Net of Depreciation

	2014	2013
Software development in progress	$ -	$ 16,869,697
Equipment and software	25,177,072	7,017,837
	$ 25,177,072	$ 23,887,534

Major additions

	2014	2013
Software development in progress	$ -	$ 15,311,729
Equipment and Software	10,758,588	8,487,895
	$ 10,758,588	$ 23,799,624

9.0 Currently Known Facts, Decisions or Conditions

- An interim CEO was appointed on August 27, 2014 when Kevin Counihan resigned as CEO. James Wadleigh, previously AHCT's Chief Information Officer, was unanimously voted by the board to become the acting CEO until a permanent placement is found.

- On October 21, 2014, a vacation rollover policy was implemented, allowing employees to carry over any PTO days into the 2015 calendar year. These days must be used by June 30, 2015. This prevents employees from losing earned PTO that may not get utilized during the busy open enrollment season. The Board of Directors voted on an incentive plan to take effect by the end of December 2014 at the Board of Directors meeting on Friday, November 7, 2014.

- On October 15, 2014 AHCT applied for a New Level I establishment grant through Centers for Medicare and Medicaid Systems (CMS) to support regulatory_required system enhancements, as well as system enhancements to support seamless integration between the current web portal and future releases of the integrated eligibility system. These enhancements will allow for an efficient and effective self-service shopping experience on the exchange.

- On September 16th, 2014 AHCT applied for a supplement award request on the Level I grant through CMS, which was originally awarded in October 2013. The supplemental funds are intended to be used in order to support continued efforts needed to develop enhancements to the EDI 834 benefit enrollment and maintenance interfaces.

10.0 Awards

On October 2, 2014, AHCT was awarded no-cost extensions for the Level I and Level II establishment grants, along with a re-budgeting request for the Level II grant, through October 23, 2015 and December 31, 2015 respectively.

11.0 Contacting the AHCT's Management

This financial report is designed to provide citizens, taxpayers, and grantors with a general view of the AHCT's finances and to show the Exchange's accountability for the money it receives. If you have any questions about this report or need additional information, contact Mr. Steven J. Sigal, Chief Financial Officer of the Connecticut Health Insurance Exchange at 280 Trumbull Street, Hartford, CT 06103.

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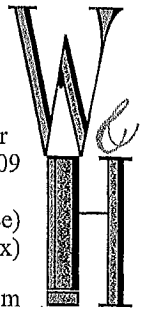

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Connecticut Health Insurance Exchange

Report on the Financial Statements

We have audited the accompanying statements of Connecticut Health Insurance Exchange (hereafter referred to as Access Health CT ("AHCT")), which comprise the statement of net position as of June 30, 2014, and the related statement of changes in net position, revenues, expenses and change in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of Access Health CT as of June 30, 2014, and the changes in net position, and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 1 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Whittlesey & Hadley, P.C.

Hartford, Connecticut
December 18, 2014

CONNECTICUT HEALTH INSURANCE EXCHANGE
(DBA ACCESS HEALTH CT)

Statement of Net Position

June 30, 2014

Assets	
Current assets	
Cash and cash equivalents	$ 39,782,505
Accounts receivable	3,325,310
Prepaid expenses	154,822
Total current assets	43,262,637
Noncurrent assets	
Security deposit	8,653
Software development in progress	-
Equipment and software, net	25,177,072
Total noncurrent assets	25,185,725
Total assets	$ 68,448,362
Liabilities and net position	
Current liabilities:	
Accounts payable - current	$ 214,732
Accrued liabilities	30,303,613
Refundable advances	735,698
Total current liabilities	31,254,043
Long term liabilities:	
Accounts payable - long-term	-
Total liabilities	31,254,043
Net position:	
Net position invested capital assets	25,177,072
Net position	12,017,247
Total net position	37,194,319
Total liabilities and net position	$ 68,448,362

The accompanying notes are an integral part of the financial statements.

CONNECTICUT HEALTH INSURANCE EXCHANGE
(DBA ACCESS HEALTH CT)

Statement of Revenue, Expenses and Change in Net Position

For the year ended June 30, 2014

Operating Revenues	
Government grants and contracts	$ 73,303,817
Grants	205,000
Marketplace assessment	12,465,573
Interest income	17,879
Total revenues	85,992,269
Operating Expenses	
Wages	6,985,039
Fringe benefits	1,546,881
Consultants	50,438,598
Equipment	1,231,834
Supplies	38,850
Travel	202,096
Maintenance	1,270,281
Administration	1,502,855
Depreciation and amortization	9,469,050
Total operating expenses	72,685,484
Change in net position	13,306,785
Net position, beginning of year	23,887,534
Net position, end of year	$ 37,194,319

The accompanying notes are an integral part of the financial statements.

CONNECTICUT HEALTH INSURANCE EXCHANGE
(DBA ACCESS HEALTH CT)

Statement of Cash Flows

For the year ended June 30, 2014

Cash flows from operating activities	
Receipts from funding sources	$ 93,043,719
Receipts from Marketplace Assessment	11,557,380
Reimbursement of operating costs	16,524,148
Payments to employees	(7,863,696)
Payments to vendors	(59,359,748)
Net cash provided by operating activities	53,901,803
Cash flows from capital and related financing activities	
Payments for software development in progress	(22,468,544)
Purchase of equipment and software	(2,451,563)
Reimbursement of equipment and software, and software development in progress	5,806,470
Net cash (used for) capital and related financing activities	(19,113,637)
Net change in cash and cash equivalents	34,788,166
Cash and cash equivalents at beginning of year	4,994,339
Cash and cash equivalents at end of year	$ 39,782,505
Reconciliation of operating income to net cash provided in operating activities	
Operating income and change in net position	$ 13,306,785
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	9,469,050
Changes in assets and liabilities:	
Accounts receivable	(1,789,414)
Prepaid expenses	849,136
Security deposit	(8,653)
Accounts payable - current	14,263,742
Accrued liabilities	20,530,475
Accounts payable - long-term	(3,424,205)
Refundable advances	704,887
Net cash provided by operating activities	$ 53,901,803

The accompanying notes are an integral part of the financial statements.

NOTE 1 - PURPOSE OF ORGANIZATION

The Connecticut Health Insurance Exchange (hereafter referred to as Access Health CT ("AHCT") is a body politic and corporate, and constituting a public instrumentality and political subdivision of the State of Connecticut. Access Health CT was established pursuant to Public Act No. 11-53 and is codified at CGS 38 a-1080 through 1090. The goals of AHCT are to reduce the number of individuals without health insurance in the State of Connecticut and to assist individuals and small employers in the procurement of health insurance by, among other services, offering easily comparable and understandable information about health insurance options. Access Health CT was established as a Quasi-Public Agency.

Access Health CT is governed by a 14 member Board of Directors. Members include ex officio state government officials and private sector members appointed by both the legislative and executive branches of state government. The mission of Access Health CT, and by extension the mission of the Board, is to increase the number of insured residents, improve health care quality, lower costs and reduce health disparities through an innovative, competitive marketplace that empowers consumers to choose the health plan and health care providers that best meet their needs.

During fiscal years 2013 and 2014, grant revenue and assessment revenue were the only revenue sources for Access Health CT. The investment for the development of the State Marketplace is entirely funded from Federal grant dollars awarded. This Federal investment is expected to cover all development, start-up, and ongoing operating expenses until Access Health CT begins generating revenues from the operation of a fully-functioning state Health Insurance Marketplace beginning in October 2013.

Beginning in 2014, Americans had access to health coverage through newly established Exchanges in each state. Individuals and small businesses use AHCT to purchase affordable health insurance from a choice of qualified health plans offered by various issuers. AHCT ensures that participating health plans meet certain standards and facilitate competition and choices by rating health plans' quality. Individuals and families purchasing health insurance through AHCT may qualify for premium tax credits if their household income is between 138 percent and 400 percent of the Federal Poverty Level (FPL) and between 100 percent and 138 percent of the FPL for certain individuals and families that may not meet the residency requirements for Medicaid, and reduce cost-sharing if their household income is between 138 percent and 250 percent of the FPL. AHCT coordinates eligibility and enrollment with State Medicaid and Children's Health Insurance Programs to ensure all Americans have affordable health coverage.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements have been prepared on the accrual basis.

Reporting Entity and Basis of Presentation

The accompanying financial statements of Access Health CT have been prepared in accordance with U.S. generally accepted accounting principles (GAAP), as prescribed by the Governmental Accounting Standards Board (GASB).

Under GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Government Entities that Use Proprietary Fund Accounting, Access Health CT has adopted the option to apply only those Financial Accounting Standards Board (FASB) statements and interpretations issued before November 30, 1989 that do not conflict with or contradict GASB pronouncements.

Access Health CT has adopted GASB Statement No. 63 Financial Reporting of Deferred Outflows of Resources, deferred Inflows of Resources and Net Position, issued June 2011.

Access Health CT utilizes the full accrual basis of accounting, which focuses on changes in total economic resources, in the preparation of financial statements. Under the full accrual basis of accounting, long-term assets and liabilities are reflected in the financial statements.

Capital Assets

Capital assets comprise software development in progress, as well as equipment and other software. Access Health CT's (AHCT) policy is to treat individual assets greater than $5,000 as capital assets. Computer equipment is recorded and tracked to ensure accountability. Assets are recorded individually to the extent possible to ensure proper accountability, accurate depreciation, and to allow for specific identification for recording of disposition.

Design, development and implementation costs incurred for the AHCT state based marketplace application are capitalized as software development in progress in accordance with GASB Statement No.51, "Accounting and Financial Reporting for Intangible Assets". The funds for this development project were provided from Federal funds awarded to AHCT and the Connecticut Department of Social Services (DSS), respectively, from each organization's U.S. Department of Health and Human Services (HHS) grant applications.

The AHCT state based marketplace application is an integrated eligibility system that determines eligibility and facilitates enrollment for both AHCT's and DSS's programs in addition to other functionality. In applying for the awarded funds, a cost allocation methodology was also filed and approved to allocate the accountability for development costs between AHCT and DSS. This allocation is 71.47% to AHCT and 28.53% to DSS. While both AHCT and DSS jointly design and develop the system, AHCT is the procuring entity and, therefore, initially funds all design, development and implementation costs and then is cost reimbursed by DSS for the 28.53% share awarded to DSS. Design, development and implementation costs, including capital assets, are presented net of the DSS reimbursement.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *(CONTINUED)*

Depreciation and Amortization

Capital assets will be depreciated using the straight-line method over the following estimated useful lives:

Software	3 years
Furniture and Equipment	5 years

Depreciable lives are based upon actual expected use by Access Health CT, not by tax lives or other general estimates.

Cash and Investments

Access Health CT has implemented GASB Statement No. 40, Deposit and Investment Risk Disclosures.

Deposits with Financial Institutions:

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, the depositor will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. Deposits are exposed to custodial credit risk if they are uninsured or uncollateralized.

Amounts on deposit at a single financial institution occasionally exceed the federally insured limit.

AHCT may invest any funds not needed for immediate use or disbursement in obligations of the United States of America or United States government sponsored corporation, in shares or other interests in any custodial arrangement, pool, or no-load, open-end management type investment company or investment trust (as defined), in obligations of any state or political subdivision rated within the top two rating categories of any nationally recognized rating service, or in obligations of the State of Connecticut or political subdivision rated within the top three rating categories of any nationally recognized rating service.

AHCT invests in obligations of the United States, including its instrumentalities and agencies, and the State of Connecticut Treasurer's short-term pooled investment fund (STIF). The STIF is available for use by the State's funds and agencies, public authorities and municipalities. State statutes authorized these pooled investment funds to be invested in United States Government and agency obligations, United States Postal Service obligations, certificates of deposit, commercial paper, corporate bonds, savings accounts, banker acceptances, student loans, and repurchase agreements.

Estimates

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *(CONTINUED)*

Net Position

Net position represents the difference between assets and liabilities in three categories:

Net investment in capital assets – consists of net capital assets.

Restricted net position – net position is considered restricted if their use is constrained to a particular purpose.

Unrestricted net position – consists of all other net position that are not considered to be in the above two categories.

Subsequent Event Measurement Date

Access Health CT monitored and evaluated any subsequent events for footnote disclosures or adjustments required in its financial statements for the fiscal year ended June 30, 2014 through December 18, 2014, the date on which the financial statements were available to be issued.

NOTE 3 - CASH

Deposits - At June 30, 2014, the carrying amounts of Access Health CT's deposits were as follows:

Account	Amount
Operating	$ 5,910,451
STIF	33,719,404
SHOP	152,650
	$ 39,782,505

Custodial credit risk - Custodial credit risk is the risk that, in the event of a bank failure, Access Health CT will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Access Health CT does not have a deposit policy for custodial credit risk.

Access Health CT has deposits in the Connecticut Short-Term Investment Fund (STIF), which is an investment pool of high-quality, short term money market instruments. Operated in a manner similar to money market mutual funds, STIF is rated AAAm by Standard & Poor's, and has an average maturity of under 60 days.

As of June 30, 2014 and 2013, $40,345,432 of Access Health CT's bank balance was uninsured and uncollateralized and therefore exposed to custodial credit risk. Bank balances by account were as follows:

Account	Amount
Operating	$ 6,473,378
STIF	33,719,404
SHOP	152,650
	$ 40,345,432

Concentrations of credit risk - Access Health CT places no limits on the amount of cash in any one bank. Access Health CT does not have a policy on credit risk concentration.

NOTE 4 - EQUIPMENT AND SOFTWARE

At June 30, 2014, equipment and software consisted of the following:

	Balance 7/1/2013	Additions	Deletions	Balance 6/30/2014
Software development in progress	$ 16,869,697	$ (16,869,697)	$ -	$ -
Equipment and software	8,527,902	27,628,285	-	36,156,187
	$ 25,397,599	$ 10,758,588	$ -	$ 36,156,187

	Balance 7/1/2013	Additions	Deletions	Balance 6/30/2014
Accumulated depreciation and amortization	$ 1,510,065	$ 9,469,050	$ -	$ 10,979,115
Net book value				$ 25,177,072

NOTE 5 - CONTINGENCIES AND CONCENTRATIONS

Some grants require the fulfillment of certain conditions. Failure to fulfill the conditions could result in the return of funds. Access Health CT does not believe any funds will need to be returned, because the stipulated conditions are being met.

Reimbursement received by AHCT from DSS reimburses AHCT for the funds disbursed by AHCT for development and other costs that relate to the 28.53% share of DSS. This share was not awarded to AHCT as part of the grant application. The reimbursements are being retained by AHCT to fund ongoing design, development and other costs.

During the fiscal year 2014, approximately 85% of funding came from one funder, the U.S. Department of Health and Human Services.

NOTE 6 - COMMITMENTS

Leases

Access Health CT has entered into various leases for office space. Estimated future payments for the leases are as follows:

Year ended June 30,	
2015	$ 368,645
2016	362,488
2017	371,136
2018	376,209
2019	65,185

NOTE 6 – COMMITMENTS – *(CONTINUED)*

Access Health CT has entered into an agreement with a contractor for its call center. The contract calls for fixed and variable costs. Estimated future fixed payments for the contract are as follows:

Year ended June 30,		
2015	$	2,341,181
2016		2,341,181
2017		390,197

Access Health CT has entered into an agreement with a contractor for its Small Business Health Options Program ("SHOP"). Estimated future payments for the contract are as follows:

Year ended June 30,		
2015	$	376,419
2016		327,186
2017		156,870

NOTE 7 – RETIREMENT AND PROFIT SHARING

During fiscal year 2013, Access Health CT joined the State of Connecticut's Deferred Compensation Section 457 Plan covering eligible employees. The purpose of the Plan is to enable employees who become covered under the plan to enhance their retirement security by permitting them to enter into agreements with Access Health CT to defer a portion of their salary. Participation in this Plan should not be construed to establish or create an employment contract between any eligible employee and Access Health CT.

In addition, Access Health CT established a Profit Sharing and Trust 401(a) plan for eligible employees. Access Health CT contributes a fixed rate of 3% of employee annual earnings and matches 50% of voluntary participant contributions, up to 6%, of annual earnings made by employees to the State of Connecticut's Deferred Compensation Section 457 Plan.

In total, Access Health CT made retirement and profit sharing payments of $287,453 for June 30, 2014 for both plans.

NOTE 8 – AWARDS

Prior to the establishment of AHCT, much of the planning for AHCT was funded by a Federal establishment planning grant that was awarded to Connecticut by the Federal Department of Health and Human Services (HHS) on September 29, 2010. Based on its progress in its State Based Marketplace planning efforts, HHS awarded a $6.7M Establishment Grant to AHCT in August of 2011 to build on the work conducted under the initial planning grant.

On August 2, and August 23, 2012 AHCT, through the State of Connecticut Office of Policy and Management, was awarded a $1,521,500 amendment to the existing Establishment Grant as well as a second Establishment Grant award of $107,358,676, respectively, from HHS to further the development of and to stabilize the operations of AHCT during its first year of operations. These funds have allowed AHCT to shape its strategy successfully and meet all necessary development milestones and benchmarks during fiscal year 2013. On December 21, 2012, the grantee of these awards was changed to AHCT from the State of Connecticut Office of Policy and Management.

NOTE 8 – AWARDS – *(CONTINUED)*

On February 14, 2013, AHCT was awarded an additional Federal Grant in the amount of $2,140,867 for the development and implementation of the In-Person Assister Program. Through a partnership with the State of Connecticut's Office of the Healthcare Advocate, the implementation of this program will provide hands-on assistance directly to the uninsured individuals seeking health insurance coverage via AHCT during the initial open enrollment timeframe.

On August 28, and September 12, 2013 AHCT was awarded a $24,960,892 amendment to the existing Establishment Grant, and a $497,741 amendment to the existing In-Person Assister Grant respectively, from the U.S. Department of Health and Human Services pursuant to Section 1311 of the Affordable Care Act to support the on-going establishment of the state operated health insurance exchange marketplace. These funds were awarded as a result of administrative supplement requests submitted by AHCT to support unforeseen development and implementation costs.

On October 23, 2013, AHCT was awarded a new Level I Establishment Grant in the amount of $20,302,003 by the U.S. Department of Health and Human Services pursuant to Section 1311 of the Affordable Care Act. This request was submitted primarily to fund the stabilization of AHCT's first year of operations for adherence to Federal guidance and regulations that were not contemplated at the time of the Establishment Grant funding request.

On October 2, 2014, AHCT was awarded no-cost extensions for the Level I and Level II establishment grants, along with a re-budgeting request for the Level II grant, through October 23, 2015 and December 31, 2015 respectively.